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RUEHBJ/AMEMBASSY BEIJING IMMEDIATE 5931
RUEKJCS/JOINT STAFF WASHINGTON DC IMMEDIATE
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C O N F I D E N T I A L SECTION 01 OF 02 MANILA 004972

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E.O. 12958: DECL: 12/08/2016

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SUBJECT: NORTHRAIL PROJECT SYMBOLIZES LARGER PRC ROLE IN
PHILIPPINES

Classified By: Pol/C Scott Bellard, reasons 1.4 (b) and (d)

¶1. (U) Summary: The PRC and the Philippines have launched a major "Northrail Project" that will ultimately span between Manila and key points in northern Luzon, including the former U.S. base at Clark and perhaps onward to Subic Bay. China provided a concessionary loan worth about \$421 million for the completion of the first 32 kilometer section, as well as for rolling stock. The China National Machinery Industry Corporation has provided engineering and technical planning. The Northrail project marks a significant upgrade in China's economic presence in the Philippines. End Summary.

New Line

¶2. (U) In an elaborate ceremony on October 20 featuring Philippine Vice President Noli De Castro and PRC Ambassador Li Jinjun, the Philippines and the PRC launched the first phase of the Northrail Project in Caloocan City in Metro-Manila on October 20. Philippine Speaker of the House of Representatives Jose De Venecia, who was also present, called it "unprecedented in the history of Philippine-Chinese relations."

¶3. (U) A major multi-phase endeavor, the rail line will ultimately span between Manila and key points in northern Luzon. Section 1 of Phase 1 includes a 32 kilometer track connecting Caloocan City to Malolos City in the province of Bulacan. Section 2 of Phase 1 will connect Malolos to the former Clark airbase in Pampanga province. Officials envisage an eventual rail connection from Clark to the Subic Freeport Zone in Zambales and then north to San Fernando/Poro Point in La Union province. Officials hope to complete Section 2 of Phase 1 within three years, as a "present" to President Arroyo before she leaves office. At present, workers are performing excavation work and soil treatment.

¶3. (SBU) The North Luzon Railway Corporation (Northrail), a state-owned subsidiary of the Philippine Bases Conversion Development Authority, will operate and manage the rail system. The China National Machinery Industry Corporation (CNMIC) is providing engineering and technical planning and will supervise work. According to Corporate Secretary and Counsel for the Northrail Corporation Benjamin Palomique, China provided a \$421 million buyer's credit loan agreement from the Export Import Bank of China to the Philippine Department of Finance. It is a tied loan at a concessionary

rate of 4% interest, with repayment over 20 years. China will also provide the rolling stock and the locomotive "shells." Palomique added that CNMIC officials are negotiating with U.S. firms GE and Caterpillar for American-made locomotive engines.

Squatter problem

¶4. (C) Northrail will essentially follow the path of an 1888 railroad line that has been out of use for over 25 years. Since then, the right-of-way had become congested with about 20,000 families of "informal settlers" or squatters, rural poor who have migrated to the urban centers along the line and have constructed make-shift neighborhoods. According to Jose Sarasola, General Manager of Philippine National Railways (which owns the railroad right-of-way), President Arroyo was determined that the Northrail Project succeed, despite the political difficulty of removing the squatters. She "had guts to push this," he commented. Sarasola observed that Vice President De Castro was the ideal point-man to carry out the relocation program, because he is a popular and "folksy" politician. The Vice President, in his speech at the Northrail launching ceremony, claimed victory in relocating all families as of December 2005, noting that the vast majority "gave way without a fight."

Comment

¶5. (C) The Northrail Project has already become a symbol here of China's increased economic presence. Unlike

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assistance programs in far-away Mindanao, this project should bring direct and quick benefits to Manila-area residents (and politicians). Improving transportation infrastructure in Luzon will allow more efficient transportation of people, goods, and resources in Northern Luzon.

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